BC hydro

Summary of BC Hydro's March 5 Workshop on Stepped Rates & Access Principles

AT THE MORRIS J WOSK CENTRE FOR DIALOGUE
SIMON FRASER UNIVERSITY

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A. INTRODUCTION

In accordance with the Province's Energy Plan, BC Hydro will be filing a proposal with the Commission in April 2003 on Stepped Rates and Access Principles for transmission voltage customers. The intention of this new rate structure is to provide the correct pricing signals to encourage customers to undertake efficient Demand Side Management or self-generation initiatives, and to allow for retail access. The new rate will also support new opportunities for independent power producers. In preparation for this filing, BC Hydro held a technical workshop on Stepped Rates and Access Principles on Wednesday, March 5, 2003, to which over 300 transmission-voltage customers, independent power producers and other interested parties were invited.

The goals of the workshop were to: present a number of rate design choices that meet the goals and objectives of the Energy Plan; identify some key implementation issues; and solicit input from customers and other interested parties to assist BC Hydro frame its proposal on Stepped Rates and Access Principles. At the workshop, BC Hydro provided high-level design parameters for Stepped Rates & Access Principles and invited general comments, as well as specific feedback, on the proposed design parameters. BC Hydro is not committed to any of the rate design options presented during the workshop; we are seeking as much feedback as possible over the next few weeks to inform our application to the Commission.

The purpose of this document is to summarize in an objective manner the discussion that occurred throughout the March 5 workshop. As mentioned throughout the workshop, there will be additional opportunities for further feedback and comments prior to our April filing. Another document, titled "Request for Feedback on Stepped Rates and Access Principles" has been appended in order to seek your responses on some specific issues arising from the workshop discussions. Your input will assist in making our April filing on Stepped Rates and Access Principles as robust as possible.

Please forward your comments to Sony Bae, Stakeholder Engagement, Energy Policy Implementation by fax (604) 623-3743 or e-mail (sony.bae@bchydro.com).

We thank you for your input.

B. SUMMARY OF DISCUSSION ITEMS

As the presentation is available on the web site, this summary is limited to discussion items arising from the workshop. Reference is made to the presentation material only as required to frame the issue under discussion.

The following topics were discussed:

1. INTERPRETATION OF THE ENERGY POLICY

BC Hydro provided to workshop participants its thoughts on how the Energy Policy should be interpreted. This included an assumption that shut down of customers facilities in response to the stepped rate would be an undesirable result of this product. It was proposed that this could be addressed by reducing or eliminating the amount of credit received at the higher market price.

A participant questioned this assumption by asking where in the Energy Policy a distinction was made between partial or full shut-down and energy efficiency / self generation. BC Hydro concurred that the view taken by BC Hydro was one of many possible interpretations, and will be subject to further debate.

Concern was also expressed that significant time and money would be spent interpreting aspects of the Energy Policy, and it was asked if any process was in place to resolve these differences (for example, by obtaining specific direction from

the government). BC Hydro stated that timing precludes more public debate around Energy Policy interpretation at this time, however this should be covered in subsequent BC Utilities Commission (BCUC) workshops. The government does plan to provide input into the process (to 'book end' the allowable design parameters) in the fall, after they have heard the debate.

2. TIER 1 CUT-OFF POINT

A stepped rate design requires a choice of where to place the cut-off between the tiers. There were two main options presented by BC Hydro for the Tier One cut-off point: (i) a stepped rate, with the first step set at some percentage of the customer historical consumption level (Handout Slide 23; Web Slide 16), and (ii) an Real Time Pricing (RTP)-like mechanism, with the first step set at 100% of the customer's historical consumption level, and increases/ decreases in consumption charged/ credited using a market based price (Handout Slide 25; Web Slide 18).

BC Hydro provided participants with illustrative examples showing that the bill impacts arising from these two rate design options were generally the same (Handout Slide 22; Web Slide 15), however the RTP-like rate design provides significantly more flexibility over the size of energy reductions (through conservation, co-generation or Independent Power Producer supply) that could be credited at the market based price.

For the stepped rate option, cut-off points ranging from 60% upwards were discussed. Concern was expressed by a participant that if the Tier One price is lower than the heritage contract price, it could lead to the implication that industrial customers are getting a subsidy (this is not an issue for the RTP-type design). A participant also stated that if the second tier volume is too small it will significantly limit the incentive of customers to respond to this rate. BC Hydro stated that it would like to hear feedback from customers on their responsiveness to design parameters.

Participants also raised the following alternative rate design options:

- **Stepped Rate Based on Heritage Contract Cost and Market Price:** Under this option the Tier One price would be set equal to the heritage contract price, and the Tier Two price would be set at a market based price. The cut-off between the tiers would be set at a level that ensures no bill impacts where there are no changes in consumption.

A participant provided an illustrative example of this option: if the Tier One price was 2.2 cents/kWh, and the Tier Two price was 5.2 cents/kWh, the cut-off between the two tiers has to be at 86% in order to ensure no bill impacts. A number of participants considered this example a simpler and logical way of approaching this rate design.

A similar rate option was also proposed by a participant which included a Tier One price set at the 1821 energy rate (2.599 cents/kWh), with the Tier Two price based on long-run marginal cost. If the volume of Tier Two energy was considered too small, adjustments to the rate could be made.

BC Hydro stated that tying the stepped rate design to the heritage contract is not a requirement of the Energy Policy, and would result in unnecessary design restrictions. It could significantly limit a customer's ability to benefit from conservation, co-generation and Independent Power Producer (IPP) supply by reducing the amount of energy available at the second tier price (especially if a Tier Two price of around 6.2 cents/kWh or higher is assumed), and would not allow for consideration of the more flexible RTP-type design alternative.

BC Hydro agreed that a discussion of these alternatives and issues would be covered in its April report to the BCUC.

- **Stepped Rate Based on Heritage Contract Cost and Volume:** Under this rate option, the Tier One price would be set equal to the heritage contract price, and the Tier Two price would be set equal to the average cost of BC Hydro's non-heritage generation assets. The Tier One cut-off point would mirror BC Hydro's heritage energy as a percentage of its total portfolio.

  BC Hydro stated that in order to encourage efficient conservation, DSM investment and IPP access, the Tier Two rate should be based on some form of forward market price, rather than historical costs. A participant also stated that a cost based approach would provide less flexibility in rate design.

3. REVENUE NEUTRAL VS. MARGIN NEUTRAL

A concern was raised that a stepped rate design would not be revenue neutral to BC Hydro if it encourages conservation (total revenues from industrial customers would decrease). BC Hydro stated that although the stepped rates would be designed to be revenue neutral from a customer perspective (assuming no change in consumption pattern), it will be

designed to be 'margin neutral' to BC Hydro. Assuming the amount credited to customers for conservation equals BC Hydro's opportunity cost, domestic revenues will drop but BC Hydro's margin will remain the same as BC Hydro Distribution can resell the power on the export market.

4. CBL DESIGN

BC Hydro proposes to establish a customer base line (CBL) for each customer based on some estimate of historical consumption (for example, average 2000 to 2002 consumption). This will be used as follows:

- for the stepped rate proposal, the volume of Tier One energy that can be purchased at the low Tier One price is a function of the customer's CBL and the Tier One cut-off percentage.

- for the RTP-type design, the CBL will be used to determine the customers fixed charge (based on the 1821 rate multiplied by the customers CBL), with any decreases / increases in consumption credited / charged at a market based price.

The issue of determining a CBL for new customers was raised. BC Hydro responded that, while there are a number of alternatives, typically a CBL estimate would be developed and trued-up at a later date. A participant also stated that a number of adjustments could be also required, for example to deal with customer response to previous rates such as Price Dispatch Curtailment and the Power Smart Industrial Tariff.

Participants questioned how new projects of existing customers would be treated. Would there be negotiations around increasing the CBL for new projects? BC Hydro agreed that this was an issue. Growth should be at the Tier Two price level, however an artificial distinction should not be created between CBL adjustments for new facilities and substantial modifications to existing facilities. This will be discussed in the report.

5. TIER ONE PRICING

Participants asked how the Tier One price would be set, and what the volatility of this price would be. BC Hydro responded that under the stepped rate proposal, the Tier Two price would be set, and then the Tier One price would be calculated (somewhere below the cost based 1821 rate) so that the customer's total bill does not change if there is no change in consumption. Under the RTP-type proposal, the Tier One price would be set

at the 1821 rate, with any decreases in consumption credited back at a market based price (referred to as the "shopping credit").

With regards to volatility, assuming a static regulatory world, the Tier One price is fixed once a customer chooses the Tier Two price option (assuming the shape of energy taken under Tier One does not change). However, if BC Hydro requires an increase in its revenue requirement, the Tier One price (or its volume) can be changed by the BCUC to ensure that all customers pay their fair share of any increase.

6. TIER TWO PRICING/SHOPPING CREDIT

BC Hydro stated that the Tier Two price (also called the 'shopping credit' under the RTP option) could be based on BC Hydro's long-run incremental costs (LRIC), or indexed to wholesale market prices (Handout Slide 30; Web Slide 22).

6.1 ADMINISTRATIVE LRIC ESTIMATE

BC Hydro proposed that the Tier Two price / shopping credit reflect market prices, and these could vary depending on the term of the commitment chosen by the customer. For example, a 5 to 10 year contract could be priced using an administrative estimate of BC Hydro's LRIC (such as the fully allocated cost of combined-cycle gas turbine), or through a BC auction mechanism.

For shorter periods, the Tier Two could be linked to an index (such as Mid-C) or could also be developed through a BC auction mechanism.

BC Hydro estimated its LRIC as being between 6.2 cents/kWh and 7.9 cents/kWh - based on the fully allocated cost of Combined Cycle Gas Turbine (CCGT) and assuming a long-run fuel cost of US $4.14 (Handout Slide 33; Web Slide 25). A number of issues were raised around this method of determining the LRIC:

- **Use of 'Real' Contract Prices:** It was proposed that the actual prices of new energy contracts acquired by BC Hydro Distribution be used, rather than hypothetical estimates.

  BC Hydro does have a slight surplus of generating capacity, but is acquiring new resources where economic, to encourage private sector development and to promote green supply.

As a result, it has entered into 22 contracts for delivery in 2006 at an average price of 5.2 cents/kWh, however this should not be automatically interpreted as providing a price signal. This will be addressed in the report.

- **Use of Power Smart Prices:** It was proposed that the cost of Power Smart acquired energy (2.5 cents/kWh) could also be used to determine the LRIC. BC Hydro responded that the 2.5 cents/kWh only represents the contribution Power Smart makes to encourage conservation or co-generation investment. If the cost of lost revenue is added, the total cost to BC Hydro rises to around 6 cents/kWh.

- **Use of Coal Instead of CCGT:** The use of a coal plant, rather than a CCGT, to determine the LRIC was raised as an alternative. This was linked to concerns about the gas price volatility if a CCGT was used to estimate LRICs.

  BC Hydro stated that, based on estimates from th[illegible] Midwest, the costs of a coal plant compared to a [illegible]GT w[illegible] similar (a coal plant will have higher construction costs but lower operating costs compared to a CCGT). The use of forward gas prices (US $4.14) in the LRIC calculation for a CCGT addresses the issue of gas price volatility.

  For short-term prices, it would be better to use a market index rather than an administrative estimate to take account of gas price volatility.

- **Green Premium:** A participant stated that conservation is green, and so should be worth more than the LRIC estimate based on the CCGT cost. It was also proposed that consideration should be given to a higher price paid for 'Negawatts' resulting from conservation.

  BC Hydro agreed that inclusion of a green premium in determining LRIC should be considered, and that LRIC could also be based on the cost of a super efficient CCGT that does not yet exist.

- **Environmental Costs:** A question was raised as to whether the costs arising from implementation of the Kyoto Protocol and other environmental initiatives had been considered in the CCGT calculation. BC Hydro stated that anticipated environmental costs become a legitimate part of the cost of new supply and should be factored in, or this risk could be addressed through the use of a risk premium.

- **Set Based on Market Impact:** A participant stated that the Tier Two price/shopping credit must be high enough to elicit a response from customers. While the participant agreed that cost is important, the participant considered that setting the Tier Two price/shopping credit as high as reasonably possible would result in the maximum incentive to conserve.

  However, another participant stated that the impact on growing customers should also be considered – if the Tier Two price is set too high it will discourage relocation of production from other Provinces to BC. Another participant also said that the impact of reducing production compared to incenting conservation should be considered.

  A participant noted that there are conflicting needs of IPPs, who the participant considered would want a high Tier Two price/shopping credit, and other customers who would prefer a predictable Tier Two price/shopping credit over a long period of time. BC Hydro stated that this is one of the areas that they are looking for support/insight into.

  A participant also stated that BC Hydro should focus on a simple and effective program that supports long-term (20 year) IPP, co-generation and conservation objectives, rather than shorter-term retail competition.

- **Volatility:** Concern was raised that if the LRIC estimates were too volatile (it has already changed from $55 last fall to $65 now), the rate will be unworkable. The risks of having a LRIC price that turns out to be higher or lower than the actual market price was also raised.

  BC Hydro stated that if we offer customers a long-term price, the BC Hydro Integrated Electricity Plan could include risk management products to address this risk.

6.2 AUCTION PROCESS

BC Hydro put forward the option of an auction process to determine the market price for forward products that are not widely traded (for example, that are not monthly one-peak (6 x 16) blocks with a 100% load factor). BC Hydro could use an auction process to solicit bids from IPPs for various blocks as required by the customer. As well as providing price discovery, this would enable BC Hydro to hedge the Tier Two price/shopping credit offered to the customer.

There was significant debate over the benefits of an auction

process compared to a long-term Tier Two price offering by BC Hydro, followed by bilateral negotiations between IPPs and customers. BC Hydro responded that an auction process would benefit customers by determining the lowest price, and also reducing the risk to BC Hydro. However, if other policy goals are considered more important (such as rate simplicity), then a different option could be adopted.

6.3 MARKET INDEX

The shorter-term market price could be based on a market index, such as Mid-C (Handout Slide 35; Web Slide 27). A participant stated that a long-term price would be preferable for measuring the benefits of a long-term project, although a shorter-term price may be better for customers who can respond to these price signals.

Concern was raised as to whether Powerex can impact the short-term or long-term market price in BC. BC Hydro responded that the long-term price is based on LRIC, and Powerex has no impact on that. The Mid-C price is influenced by supply and demand factors throughout the West Coast, Mexico, California, Oregon, Washington, Utah and Alberta.

6.4 TIME OF USE / SPOT PRICING OPTIONS

Participants raised the option of a time-of-use Tier Two price, and shorter-term prices that would allow customers to take advantage of price volatility in the wholesale market. BC Hydro agreed that these are possible options, although the prices may not be transparent as there is no clear BC market price. Index prices elsewhere may not be appropriate in BC for all hours as a result of the impact of storage and transmission constraints.

Until the stepped/RTP-type rate is in place, other rate designs (such as the Power Smart Industrial rate) can continue to be used to provide customers with short-term market price opportunities.

6.5 THIRD TIER PRICING (BUY / SELL SPREAD)

A participant raised the possibility of a stepped rate design with a Third Tier that kicks in at 100% of the customers CBL. The Second Tier price could be below market, with the Third Tier price above market. It was considered that this design could address the problem of protecting BC Hydro from uneconomic growth.

BC Hydro responded that this is similar to the concept of a buy-sell spread on the RTP-like rate design. A lower price (shopping credit) is paid to customers for conservation, while a higher price is charged to customers for additional consumption over their CBL. Preserving such a buy/sell spread will help ensure that there are no impacts on non-participating customers. However, for symmetry, an accurate market price should make BC Hydro indifferent to crediting customers for decreases in consumption & charging customers for increases in consumption.

7. TRANSMISSION ADDER

BC Hydro stated that the Tier Two Price/Shopping Credit could include or exclude a transmission adder (Handout Slides 46 & 47; Web Slides 35 & 36). If included, it could be based on incremental transmission costs, embedded transmission costs, the 1821 demand charge or the wholesale transmission services rate. If it is excluded, customers selecting IPP access could receive a credit for wholesale transmission costs paid that they have already paid for as part of their CBL.

8. TRANSITION ISSUES

A concern was raised that energy efficiency improvements will be put on hold until the new rate comes into effect. BC Hydro stated that they were also very concerned about this, and hope to work with customers and the BCUC to ensure energy efficiency and self-generation programs can be put in place in a timely manner through the transition period. BC Hydro welcomes any suggestions to avoid unnecessary delay due to uncertainty during the transition period. One proposal raised to address this concern was for early establishment of customer CBLs. A number of participants thought that this would be a good topic to discuss at subsequent workshops.

Post meeting note: BC Hydro understands that the extended regulatory process in Stepped Rates may create uncertainty for RS1821 customers on the economic benefits of investments under BC Hydro's Customer Based Generation & PowerSmart programs (relative to Stepped Rates). BC Hydro is developing a policy for RS1821 customers (that holds other rate class of customers harmless) to address the uncertainty during this transition period so economic investments are not deferred.

9. SIMPLE VS. ACCURATE RATE DESIGN OPTIONS

A participant proposed that it may be better to come up with ideas that are simple and address the main goals of the rate

design (simplicity, transparency and certainty around the price), even if simple designs result in a few perverse incentives. BC Hydro responded that there is a trade-off between a complicated design and complicated access rules, and we can strive for a happy medium.

However, another participant stated that we should ensure that benefits obtained for the Industrial customer class are not obtained at the expense of other customer classes. There has to be a mechanism to ensure (i) if non-participants are subject to risks, the risks are not just on the down side, and (ii) access principles are flexible enough to meet the goals while ensuring the benefits gained are not at the expense of other customers.

Net metering was proposed as one option to simplify the process. The customer would automatically receive the Tier Two price / shopping credit, and the transmission component could be dealt with separately. BC Hydro agreed that this is one mechanism that could be used to implement the rate.

10. IPP ACCESS

BC Hydro stated that the stepped rate / RTP-like rate would provide customers with the ability to purchase their market priced portion of energy from an IPP instead of BC Hydro (Handout Slide 47; Web Slide 36). A number of issues were raised around this.

10.1 BILATERAL ACCESS MODEL ALTERNATIVE

It was proposed that BC Hydro should also consider a bilateral model similar to that of natural gas (wheeling charge plus a competitive energy charge) as this would be simpler. BC Hydro responded that this would not be possible without a full restructuring of 1821 (which would result in bill impacts) and changes to the wholesale transmission tariff (which is designed for wholesale rather than retail transactions). Without these changes, the stepped rate/RTP-type rate proposal is the simplest way to implement the Energy Plan objectives.

10.2 TRANSMISSION CHARGES FOR IPP ACCESS

A participant stated that for IPP access, customers should be able to purchase energy from an IPP using a transmission rate that is not onerous. BC Hydro stated that the simplest way to address this would be through the use of the direct access rate, without modification to the wholesale transmission service process. Training will be made available to Industrial customers

BC Hydro also stated that a customer taking IPP supply would not have to pay twice for transmission service. If the Tier Two price / shopping credit does not include an adder for transmission, then the IPP customer will receive a bill credit for payment of wholesale transmission charges to the extent that these services have already been paid as part of their CBL.

10.3 IMPACT OF TRANSMISSION SERVICES COMPANY FORMATION

An issue was raised as to the impact the formation of a Transmission Services Company will have on BC Hydro's position. BC Hydro responded that the Transmission Services Company will not own BC Hydro assets, and Wholesale Transmission Service (WTS) probably will not be redesigned until 2004. At that point, BC Hydro will look at the impacts on any rate designs.

A participant stated that they suspect the existing transmission rates are not too far off the mark.

10.4 IMPACT OF IPP LOCATION

A question was raised about the impact of IPP location on the Tier Two price / shopping credit. BC Hydro responded that IPP location could only impact the Tier Two price if the Tier Two price includes transmission locational credits or costs. Current wholesale contracts entered into by BC Hydro do provide adjustments for certain projects based on transmission location specific costs.

The IPP itself may be impacted by location through its transmission connection charges.

10.5 CHARGES FOR LOSSES / ENERGY IMBALANCE

A participant asked if customers taking IPP access would also be charged for the 6% losses under the wholesale transmission service. BC Hydro responded that the customer would have to purchase losses and energy imbalance service if they are taking supply from the IPP. However, the Tier Two price / shopping credit would reflect the cost of purchasing these services from BC Hydro and so the customer would not be paying for these services twice.

To ensure no negative impacts on non-participating customers, the energy imbalance charge could be based on the actual cost (market price) to BC Hydro of truing up the IPP purchase to meet the customer's needs.

10.6 LEVEL PLAYING FIELD FOR IPPS

Concern was raised that a high spread between a stepped rate Tier One price and Tier Two price will provide customers with old, energy intensive plants with a strong incentive to reduce production, obtain funding for Power Smart programs or install co-generation. This would reduce opportunities available to IPPs. Preference was also expressed for the RTP-type rate over the stepped rate.

Inclusion of a transmission adder onto the Tier two / shopping credit price will increase the credit received by the customer for conservation, energy efficiency and co-generation beyond that available to IPPs. This is one of the issues that will be addressed in the report.

Several participants stated that one of the major issues with respect to IPPs is reliability and the issue of storage. Several participants considered that BC Hydro has a huge advantage here in meeting customer needs. BC Hydro stated that standby and energy imbalance will be addressed in the report.

10.7 CERTIFICATION OF MARKETERS

A participant asked if the IPP markets would be open to certified marketers, and if so who are the marketers and who would certify them. BC Hydro responded that there was an assumption that the marketers would include Powerex, and that a certification process would be in place. BC Hydro also stated that this is a sophisticated business, and customers may want to align themselves with consortiums (such as TransAlta) who have the expertise to open this market for them.

10.8 IPP ACCESS TO THE GRID

A concern was raised about IPP access to the Transmission grid for exports and to serve domestic customers.

For exports, BC Hydro responded that an open access tariff is in place, however if you reserve long or reserve big you can get priority over other reservations. Also, reservations are on a first come first served basis. BC Hydro agreed that IPP access to the transmission system for export is an issue.

For access within BC, BC Hydro stated that this should not be a problem. BC Hydro did note that there are occasional constraints from the Interior to the Lower Mainland, and there is a potential issue through to Vancouver Island.

BC Hydro stated a customer could request incremental additions to the transmission system under the wholesale transmission service tariff.

C. SUMMARY OF PARTICIPANT RESPONSE TO DISCUSSION QUESTIONS

Workshop participants were provided with four departure points for discussion during the facilitated afternoon session. Along with the departure points for discussion, a high-level summary of some of the responses is provided below.

1. Based on what you heard today, what is your initial reaction at the effectiveness of stepped rates to induce you to modify the amount of power that you purchase from BC Hydro?

There was general agreement from participants that stepped rates are an effective way to reduce consumption, however concerns were raised that the rate designs discussed were unnecessarily complex and could lead to a deferment of conservation investments in the interim period.

2. What are the characteristics of the stepped rate design that would prevent you from modifying your purchases from BC Hydro?

Participants were concerned about the complexity of the stepped rate product, price volatility and transparency, and restrictions over the amount of conserved energy that would be credited at a market based price.

3. How can the stepped rate be used to incent the following:

a) Invest in conservation or self generation?

Participants stated that conservation and self-generation would be enhanced by a high tier two rate, that provides a credit for transmission and reflects the environmental benefits of conservation. Some participants preferred time-of-use pricing options, firm long-term prices and access to storage, standby and energy imbalance rates.

b) Contract directly with an IPP for incremental supply?

Participants stated that to contract with an IPP they required price certainty, a sufficiently high Tier Two price, simple and

reasonable transmission access, access to storage, standby and energy imbalance and sufficient percentage of customer CBL energy priced at market price.

c) Modify your plant operation?

Participants stated that to modify their plant operations they required firm long-term prices with a sufficiently high Tier Two price. Time-of-use and spot pricing options would also be of benefit.

4. If you are a marketer / IPP developer, do the parameters of the stepped rate create an opportunity to sell power in BC?

An IPP participant stated that fair transmission access and access to storage and back-up would create more opportunities for IPPs. The Tier Two price should not be so high that customers focus on shutting down operations / DSM instead of looking at alternative sources of supply, and should create a level playing field between IPP and co-generation. There should also be sufficient portion of customer's CBL priced at market priced energy to provide customers with an incentive to obtain alternative IPP supply.

D. CLOSING COMMENTS

This document of summary notes meets our commitment to inform, communicate and document the discussion during the March 5 Workshop on Stepped Rates and Access Principles. In an effort to obtain further feedback, we have highlighted five issues arising from the March 5 workshop discussion. They appear at the end of this document. Your input will assist in making our April filing as robust as possible.

If you were unable to attend the workshop, the presentation material and the departure points for discussion are both available at the BC Hydro Energy Policy Implementation web site (www.bchydro.com/energyplan).

Please forward your comments on this document or any other issues pertaining to Stepped Rates and Access Principles to:

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BC hydro

Highlights from March 5 Workshop Discussion for Customer and Interested Party Feedback

In order to facilitate dialogue that would further shape the April Filing on Stepped Rates and Access Principles, BC Hydro is seeking specific feedback from customers on the following rate design issues:

1. Stepped Rate vs. RTP-like Design

A stepped rate design requires a choice of where to place the cut-off between the tiers. There are two main options for the Tier One cut-off point:

- Stepped Rate Design: this would set the Tier One volume at some percentage of the customer historical consumption level (60% or higher). An alternative proposal would be to have the Tier One volume linked to the heritage contract or the 1821 energy charge – this would restrict the size of Tier One to around 85% or higher.

  A low Tier One volume could result in an unacceptably low Tier One price, while a high Tier One volume would restrict the customers ability to receive market based credits for conservation, self-generation, shut-down and IPP supply.

- RTP-like mechanism: this sets the Tier One volume at 100% of the customer's historical consumption level, and increases / decreases in consumption are charged / credited using a market based price.

  This allows customers to continue to benefit from BC Hydro's low cost generation for existing consumption levels, and because the Tier One price is based on the 1821 tariff it does not raise an issue of energy being supplied at below Heritage Contract cost. However, unlike the stepped rate design, it potentially allows customers the full benefit of market based credits for conservation, self-generation, shut-down and IPP supply.

BC Hydro would like to hear feedback from customers on their responsiveness to all the proposed stepped rates and RTP-type design parameters, as well as opinions and suggestions on what would constitute an "unacceptably low" price for the stepped rate Tier One block.

2. CBL Design

BC Hydro proposes to establish a customer base line ("CBL") for each customer based on some estimate of historical consumption (for example, average 2000 to 2002 consumption). This will be used to determine the quantity of energy a customer can purchase at embedded cost based prices.

BC Hydro proposes that growth should be at the Tier Two price, and to achieve this the CBL should not be adjusted upwards once set. However, BC Hydro would like to avoid creating an artificial distinction between new facilities (where a new CBL will be determined) and substantial modifications to existing facilities. A fixed CBL could also allow a customer to continue to receive market based credits for facilities that have been shut down.

BC Hydro is soliciting feedback on how to treat CBL's on a balance basis between new customers, existing customer growth and customers who have curtailed operations.

3. Determining the Market Energy Price

The market energy price will be used to set the stepped rate Tier Two price, or to determine the credit / charge for variances from historic consumption patterns for the RTP-type rate.

BC Hydro is looking for specific feedback on the following issues:

- ***Are customers looking for shorter term price alternatives (for example, hourly, yearly) in addition to a long-run market based price?***
- ***What would be the appropriate mechanism to determine the long-run and short-run market price?***
- ***For conservation, shut-down, self-generation and IPP access customers, what mechanism should be put in place to ensure that the credit paid to the customer reflects the firmness, shape and term of the power that it is being replaced with?***
- ***Should the market price include a premium for green energy supply?***
- ***Should there be a difference between the buy / sell price? For the stepped rate option, this would be equivalent to a Tier Three price that takes effect at 100% of the customers CBL.***

4. Transmission Adder

The Tier Two Price could include or exclude a transmission adder based on sunk transmission costs. If included, it will allow conservation, shut-down and self-generation customers to receive a reduction in their transmission charge even though BC Hydro will see no or minimal reduction in transmission costs. It will also result in an increased costs for growing customers. The transmission adder could be set based on embedded transmission costs, the 1821 demand charge or the wholesale point to point demand charge.

If excluded (or if it is based on low incremental transmission costs), it could result in customers obtaining supply from an IPP being asked to pay twice for transmission access (once through their CBL and again through the wholesale point to point charges). This could be addressed by providing these customers with a credit for wholesale transmission charges they have already in effect paid for under their CBL.

BC Hydro welcomes feedback on the appropriate treatment of sunk transmission costs.

5. Level Playing Field for IPPs

BC Hydro is proposing that IPPs seeking to supply retail customers obtain transmission access through the wholesale transmission tariff. The customer would be responsible for purchasing real power losses (either from BC Hydro or an alternative supplier), and would be charged for energy imbalance service based on the actual cost (market price) of BC Hydro providing this service.

BC Hydro welcomes input on the appropriate mechanism to arrange and pay for transmission access for customers who select an IPP supplier.